



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Rt Hon George Howarth MP
House of Commons
London
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12 OCT 2015

Dear George

Thank you for your letter of 21 September to George Osborne enclosing correspondence from your constituent about taxation of dividends. I am replying as Minister responsible for this policy area.

The current system of tax credits on dividends was designed over 40 years ago when corporation tax was more than 50% and the total tax bill on dividends for some was more than 80%. Since then tax rates have fallen significantly, leaving the Dividend Tax Credit as an outdated and complex feature of the tax system.

The Government is therefore reforming and simplifying the system of dividend taxation, alongside further cuts to Corporation Tax rates for all businesses. From April 2016 it will abolish the Dividend Tax Credit and replace it with a new £5,000 tax-free Dividend Allowance. The new rates of dividend tax will be set at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

The new Dividend Allowance will protect ordinary investors with small shareholdings from the changes and ensure they see either no change or a cut to their tax bills. 95% of all taxpayers - and more than three quarters of all those who receive dividend income - will either gain or be unaffected by these changes.

Only those with significant dividend income will pay more tax - such as those with very large shareholdings (typically more than £140,000 invested in stocks and shares outside of an ISA) or those who take a significant part of their income as dividends.

Everyone will be able to benefit from the new ISA allowance of £15,240 a year - and due to the increases to the Personal Allowance and introduction of the new Dividend Allowance and Personal Savings Allowance, can earn up to £17,000 of income completely tax-free from next April.

Owners of small companies will benefit from a range of measures announced at the Summer Budget 2015, including a reduction in the rate of Corporation Tax to 19% in 2017 and 18% by 2020, an increase in the Employment Allowance to £3,000 from April 2016 and a permanent increase to the Annual Investment Allowance to £200,000 from January 2016. They will also pay less tax as a result of the increases to the tax-free Personal Allowance to £11,000 and to the Higher Rate Threshold to £43,000 in April 2016.

Please pass on my thanks to your constituent for taking the trouble to make us aware of these concerns.

Yours
David

DAVID GAUKE